REPORT ON THE
ADMINISTERED PRICE RESTRAINT PROGRAM

Economic Policy Branch
February 7, 1984

Introduction

The administered price restraint program was introduced on September 21, 1982 as part of the Government's overall Inflation Restraint Program.

Under Bill 179, the Minister of Consumer and Commercial Relations established economic criteria by which all increases in administered prices were to be reviewed.

The Cabinet Committee on Administered Prices (CCAP), under the chairmanship of the Minister of Consumer and Commercial Relations, was subsequently established to review all increases in administered prices above 5 per cent during the period September 21, 1982 to December 31, 1983.

Administered price increases were reviewed first by the relevant Minister who had responsibility for ensuring compliance and, if above 5 per cent, the increases were referred to the Committee for review. In conducting the review, the Chairman of the Committee was empowered under Bill 179 to seek additional information and advice from the Inflation Restraint Board.

The Chairman of the Committee then made recommendations to Cabinet which was empowered under the legislation to disallow, delay or roll back a price increase proposal or to attach other conditions before allowing an increase.

Economic Criteria

The economic criteria by which increases in administered prices were reviewed are:

- Increases in average compensation for all employees were to be limited to 5 per cent for the compliance year.
- All other cost increases, such as purchases of goods or services, interest, depreciation and taxes, could be fully passed through.
- For profits, where applicable, any increase in the rate of return on common equity (or some similar concept) was to be restricted to 5 per cent.

- Where application of these criteria might have had a significantly adverse economic impact such as lay-offs, bankruptcy or seriously impaired financial status, these could be taken into account in the review by the Cabinet Committee. Other economic policy objectives of the Government could also be considered.

Coverage

The administered price restraint program covered a wide range of fees and prices monitored by the Province's twenty-three ministries and agencies. These included: prices, fees, and charges set and collected by ministries; prices or fees charged by public agencies (for example, GO Transit fares, Ontario Place admissions); and prices or fees required, permitted or authorized by a public regulatory agency to be charged by another person or company (such as telephone rates regulated by the Ontario Telephone Service Commission or charter bus tariffs regulated by the Ontario Highway Transport Board).

Prices and agencies exempted from administered price restraint when the program was introduced included:

- prices of goods or services for export from the Province;
- interministerial and intergovernmental charges;
- prices of agricultural products which are controlled by marketing boards;
- private sector rents which are controlled by the Residential Tenancy Commission;
- the Ontario Housing Corporation which provides subsidized housing units for low income households; and
- prices regulated by other levels of government excluding municipal power utilities which are regulated by Ontario Hydro.

Because the Cabinet Committee on Administered Prices reviewed only those proposals for price increases in excess of 5 per cent, the full impact of the administered price restraint program cannot be assessed on the basis of

Committee decisions alone. Some price increases were deferred for the entire fifteen-month program, and other prices rose 5 per cent or less.

Table 1 shows the 230 price schedules representing over 3,000 individual prices which are administered by provincial ministries and their respective agencies. The Cabinet Committee reviewed 44 price schedules. In more than 80 per cent of all cases, prices were either frozen or increased by 5 per cent or less.

PRICE SCHEDULES AND PRICES ADMINISTERED BY PROVINCIAL MINISTRIES AND REVIEWED BY CABINET COMMITTEE* Table 1

Ministry	Price Schedules	Individual Prices	Schedules Reviewed by the Committee	Schedules with Increases Above 5%
Agriculture & Food	23	144	1	0
Attorney General	13	311	3	0
Citizenship & Culture	8	38	4	4
Community & Social Services	9	838	0	0
Consumer & Commercial Relations	49	476	8	4
Correctional Services	3	5	0	0
Education, Colleges & Universities	15	69	2	0
Energy	4	329	2	1
Environment	6	215	3	2
Government Services	6	6	0	0
Health	20	44	2	1
Industry & Trade	3	58	0	0
Intergovernmental Affairs	0	0	0	0
Labour	11	123	4	1
Management Board	0	0	0	0
Municipal Affairs & Housing	3	5	0	0
Natural Resources	15	125	4	0
Northern Affairs	6	18	1	1
Revenue	2	2	0	0
Solicitor General	16	40	1	1
Tourism & Recreation	8	146	2	0
Transportation & Communications	9	281	7	3
Treasury & Economics	1	18	0	0
TOTALS	230	3,291	44	18

Source: Ministry of Treasury and Economics

* As of November 10, 1983

Summary of Decisions

The provincial government administers over 200 price schedules. Requests were made in 44 cases, or 19 per cent, for increases above 5 per cent.

For 18 of the 44 price schedules reviewed, the Committee recommended that increases above 5 per cent be approved by Cabinet. This represents 8 per cent of all price schedules administered by the Province.

- The Cabinet Committee recommended in 10 cases that since costs to the agency concerned had risen, increases above 5 per cent be allowed on the basis of the cost pass-through criteria.
- In two instances, the Committee found that a significantly adverse economic impact would result if the price in question were not allowed to increase by more than 5 per cent.
- The Committee made 6 recommendations that Cabinet allow increases above 5 per cent for other reasons (e.g., prices were determined by the marketplace, or the price increase would result in improved services).

The Committee recommended that 19 of the 44 proposed price increases considered be limited to 5 per cent, disallowed, reduced, deferred, or rolled back.

Some examples of prices which were held to 5 per cent as a result of Committee consideration include:

- provincial park fees, resident fishing licences, charges for nursery stock, and Crown timber dues charged by the Ministry of Natural Resources;
- legal aid fees charged by the Attorney General; and
- Northern Telephone Limited charges regulated by the Ontario Telephone Service Commission.

The remaining seven proposals were found to be not subject to the administered price restraint program.

1. Ministry Prices

The majority of proposals considered by the Committee involved ministry prices. In most cases, the Committee recommended that increases be limited to 5 per cent.

Ministry prices held to 5 per cent on the recommendation of the Committee include: legal aid fees, scotch pine seedling prices, provincial park fees, Consumer and Commercial Relations registration fees, and fishing licence fees for residents of Canada.

In the course of carrying out its duties, the Committee developed the general principle that price increases designed to raise cost recovery ratios were not consistent with the program. This principle affected Committee recommendations regarding prices of Ministry of Transportation and Communications engineering publications, and revisions to patients and estates fees for federal income tax return preparation. The latter increases were limited to 5 per cent.

The Committee recommended that Cabinet approve a one-time validation fee for snowmobiles. This involved an increase in excess of 5 per cent.

2. Public Sector Administered Prices

A public sector administered price is a price or fee charged by a public agency.

The Committee recommended disallowing the implementation of a parking fee proposed by GO Transit. Introducing a fee for parking previously provided as part of the price of the GO service was seen as a violation of the restraint program. The Committee, however, did allow the Royal Botannical Gardens to introduce a $2.00 parking fee at one of its parking lots; revenues were to be used to improve services.

Requests were refused for increases above 5 per cent in admission fees to Ontario Place, the St. Clair Parkway Commission and the Ontario Place Film Festival.

Wage rate schedules for persons or organizations entering into contracts with the Government for construction, cleaning or security services were not, strictly speaking, covered by the Inflation Restraint Act. The Committee recommended that, parallel to compensation restraint, increases be limited to 9 per cent in the transition year and 5 per cent in 1983.

The Committee recommended that Cabinet approve -- on the basis of cost pass-through -- increases above 5 per cent for: GO Transit fares (the increase granted was less than that proposed), admission fees for the McMichael Canadian Collection, per diem rates for extended care and homes for special care, and Worker's Compensation Board assessment rates.

Because of potential for a significantly adverse economic impact, the Committee recommended allowing a price increase above 5 per cent for general admission fees to the Art Gallery of Ontario.

As part of the restraint program, the Government made a commitment that the LCBO mark-up rate on alcoholic beverages other than beer would not be changed during the program period. On the basis of the adverse economic impact criteria, however, the Committee recommended approval of new floor price structures and a return to the mark-up system for wine. Without this recommendation, the wine and grape growing industries in Ontario would have been exposed to damaging foreign competition.

The Committee determined that Ontario Hydro's 1983 utility rate increase to municipal electric utilities was in accordance with the restraint criteria. Restricting the rate increase to the 5 per cent level would have been inconsistent with the higher costs faced by Hydro and would have necessitated

greater borrowings. It also would have meant trading off lower rates in 1983 for higher interest costs and higher rates in subsequent years. The Committee, however, did recommend a lower increase than that recommended by the Ontario Energy Board to reflect the reduced compensation costs resulting from the restraint program.

The Committee recommended that Cabinet approve price increases above 5 per cent in cases where announcements of increases had been made prior to the restraint program. Such was the case for Ontario Science Centre fees.

3. Regulated Prices

Administered prices also included prices or fees required, permitted or authorized by a public regulatory agency to be charged by another person or company.

The Committee, on reviewing price increase proposals for private sector administered prices, recommended in several cases that increases be held to 5 per cent or less.

Beer prices are subject to LCBO regulation, and Cabinet approves all price increases. In April 1982, the brewers received an increase of 70¢ per case to cover estimated costs until 1983. The brewers, in proposing a 4.9 per cent price increase for December 1982, wished to be able to seek a further increase in respect of 1983 costs in the spring. The Committee recommended that the brewers be allowed an increase in beer prices of 4.9 per cent in December 1982, but that no further increase be approved before December 31, 1983.

In the case of school bus tariffs, the Committee recommended that a formula to restrain school bus tariffs be approved because it satisfied the restraint program objectives; operator profits have always been limited on a rate base concept and wage costs would be limited to an increase of 5 per cent.

In July 1982, Northern Telephone Limited applied to the Ontario Telephone Service Commission for a rate increase above 5 per cent effective January 1983. The OTSC had held financial hearings and, at the time of the Committee's consideration of NTL rate increases, was preparing to issue an order requesting a revised rate structure based on an expected average increase of 4.6 per cent. The Committee recommended that Cabinet authorize the OTSC to permit the Northern Telephone Limited rate increase.

The Committee recommended that the announced price increase for Northern & Central Gas not be allowed because the Ontario Energy Board had not applied the restraint criteria. The Inflation Restraint Board (IRB) was called upon to review this decision and to determine an increase which would conform to the criteria. The Committee's recommendation resulted in price increases less than 5 per cent not including allowable cost pass-throughs in respect of increases in Trans Canada Pipe Line charges and the Alberta border price.

The Ministry of Transportation and Communications developed a formula with an 8.7 per cent cap to be applied by the Ontario Highway Transport Board in approving inter-city charter tariff increases. The formula was found by the Committee to be consistent with the profit and compensation criteria.

The Superintendent of Insurance proposed an increase in Green Shield Medical Insurance premiums. Committee recommended that the pay-direct increases be approved as proposed since Green Shield had experienced some financial difficulty over the past year. The Committee further recommended that Cabinet direct the Superintendent to suggest to Green Shield that a reduction in premiums be considered in its next rate application, if the surplus of funds collected from pay-direct premiums exceeded, by more than 5 per cent, the average surplus from such schemes throughout the industry.

The Committee recommended that Cabinet authorize the Minister of Labour to approve the publication of revisions to wage rates for the fur industry. Although these wages were not covered by the Inflation Restraint Act, the Committee decided that the schedule should comply with the spirit of restraint.

On the basis of the cost-pass through criteria, increases above 5 per cent were recommended by the Committee for Facility auto insurance premiums, travel compensation premiums, and norOntair fares.

The following tables list the price schedules which were reviewed by the Committee, according to the type of decision rendered. Table 2 shows the individual recommendations for price increases over 5 per cent, table 3 shows those for 5 per cent or less and table 4 lists the exemptions.

PRICE SCHEDULES RECOMMENDED BY THE CABINET COMMITTEE FOR INCREASES ABOVE 5 PER CENT*

Table 2

	Average Fee Increase (%)
Ontario Science Centre Admission Fees	73.3[1]
McMichael Canadian Collection Admission Fees	n/a[2]
Royal Botannical Gardens Parking Fee	n/a[3]
Art Gallery of Ontario Admission Fee	125 to 200
Green Shield Medical Insurance Premiums	58 and 65
Facility Auto Insurance Premiums	35
Travel Industry Insurance Premiums	20[4]
Wine Mark-ups	-5 to 24
Hydro Rates	8.4
Water & Sewage Charges	-14.0 to 148.8
Private Sewage Certificates	74.5 and 12
Per Diem Rates	8.6
WCB Assessment Rates	13.6
norOntario Fares	6.6
Fees for Transporting Dead Bodies	11.1 - 100
GO Transit Fares	8.1
Charter Bus Tariffs	8.7
Validation Fee for Snowmobiles	150[5]
TOTAL NUMBER OF INCREASES ABOVE 5 PER CENT	18

Source: Ministry of Treasury and Economics

* As of November 10, 1983

1. The Science Centre had published fee changes in the Ontario Gazette in April 1982.
2. New fee for renovated service.
3. New fee, improved services.
4. Also 100 per cent increase in new registrant fee.
5. $10 Annual fee revised to $25 one-time charge.

PRICE SCHEDULES RECOMMENDED BY THE CABINET COMMITTEE FOR INCREASES OF 5 PER CENT OR LESS* Table 3

Legal Aid Services
Fees for Preparations of Income Tax Returns
Beer Prices
Biennial Registration Fees
Cemetary Rates
School Bus Tariffs
Tuition Fees for Canadian Students
Northern & Central Gas[1]
Fair Wage Schedule
Fur Industry Wages
WCB Cost Recovery
Scotch Pine Nursery Stock Prices
Provincial Park Fees
Resident Fishing Licence Fees
Ontario Place and St. Clair Parkway Admission Fees
Ontario Place Film Festival Admission Fees
GO Transit Parking Fee
Northern Telephone Limited Charges
Engineering Publication Prices

TOTAL	19

Source: Ministry of Treasury and Economics

* As of November 10, 1983

1. Not including allowable cost pass-throughs in respect of increase in Trans Canada Pipe Line charges and the Alberta border price.

PRICE SCHEDULES RECOMMENDED BY THE CABINET COMMITTEE FOR EXEMPTION FROM THE PROGRAM* Table 4

Crop Insurance Premiums
Surrogate Court Fees
Professional Association Membership Fees
Administrative Cost Recovery for Water Sewage Plants
Co-payment Rates
Crown Timber Dues
Cross-boundary Urban Transit Fares

TOTAL	7

Source: Ministry of Treasury and Economics

* As of November 10, 1983